



## Industrial Market Report

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

FLAT

Lease Rates

DOWN

Transactions

FLAT

Deliveries

DOWN

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Prepared by:

**Jerry J. Holdner, Jr.** — Lic.#01145748  
Vice President of Market Research  
e-mail: [jholdner@voitco.com](mailto:jholdner@voitco.com)

**Joshua Brant**  
Market Research Analyst  
e-mail: [jbrant@voitco.com](mailto:jbrant@voitco.com)

VOIT Real Estate Services — Lic.#01333376

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### Market Highlights

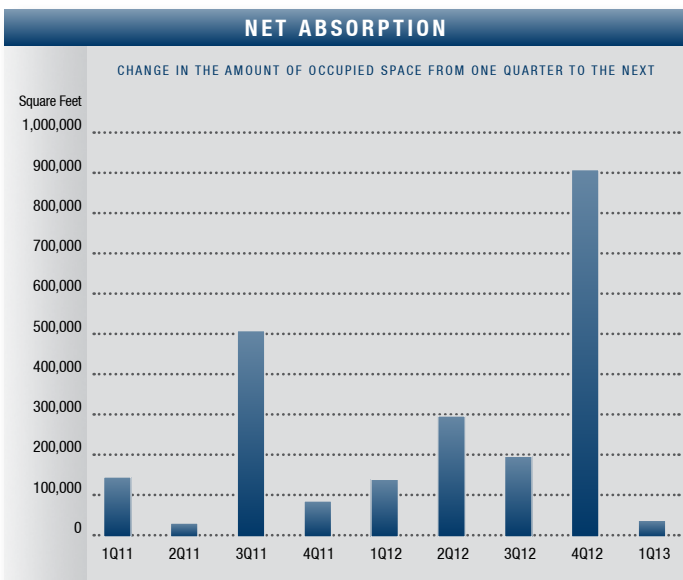
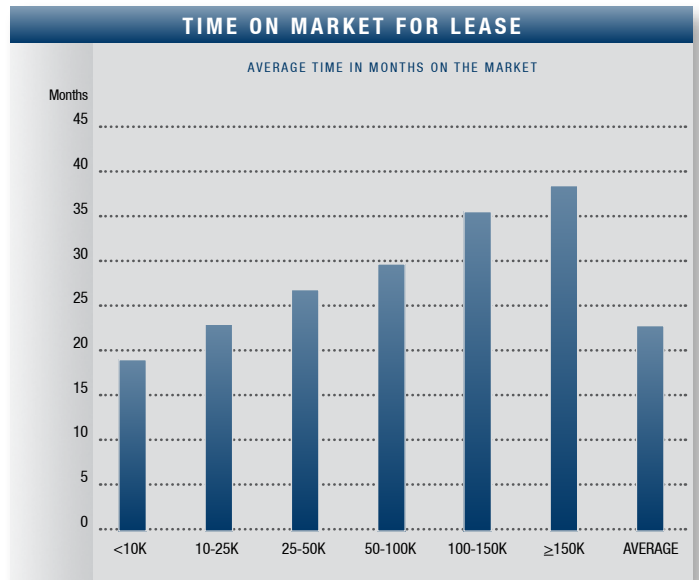
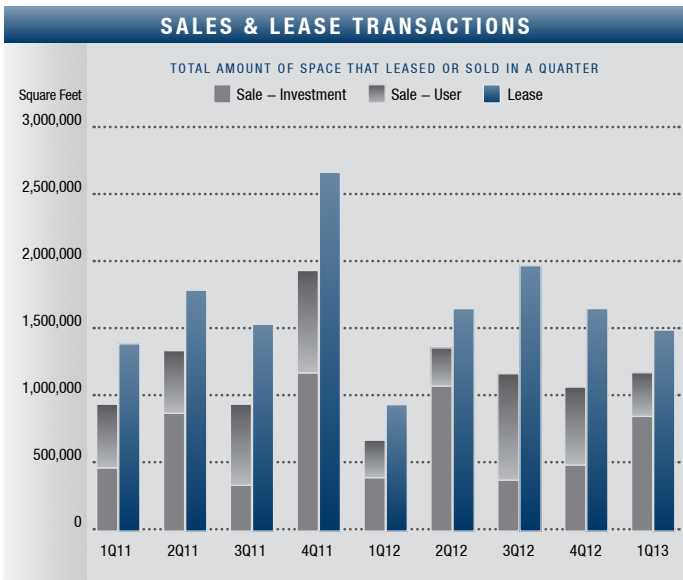
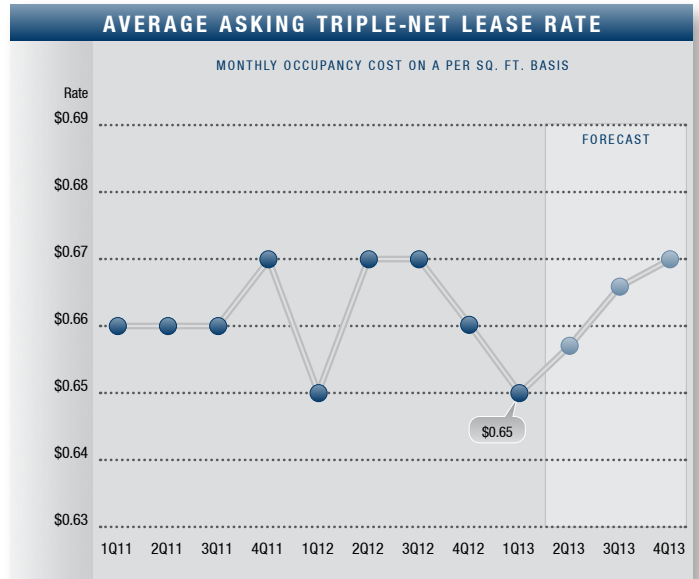
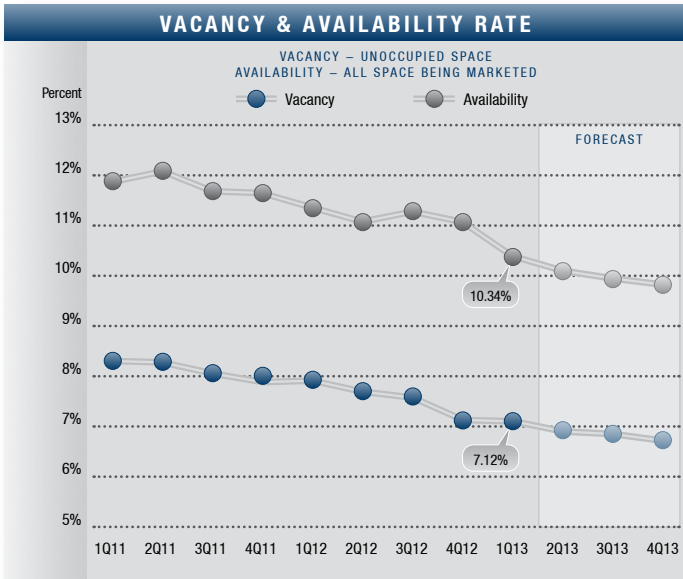
- Moving Forward** - The San Diego County industrial market continued its path to recovery in the first quarter of 2013, posting a modest 7.12% vacancy rate. Availability also continued trending downward, and net absorption was positive for the twelfth consecutive quarter. While these are positive indicators, we are keeping a close eye on demand, which, being ultimately influenced by employment and overall economic stability, will need to be sustained in coming quarters for the San Diego County industrial market to continue recovery.
- Construction** - The last three years saw extremely low levels of industrial construction in San Diego County with only 179,000 square feet delivering in 2012. 2013 is going to be another year of minimal industrial development. The nearly non-existent industrial pipeline has helped to push vacancy down.
- Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 7.12% — the lowest level since the first quarter of 2009. Kearny Mesa posted the lowest vacancy rates of submarkets with at least 5 million square feet of inventory, at 3.5%. We are forecasting that vacancy will continue its downward trend in 2013, dipping below the 7% mark.
- Availability** - Direct/sublease space being marketed was 10.34% at the end of the quarter — a decrease from the previous quarter's rate of 11.05%.
- Lease Rates** - The average asking triple-net lease rate was \$0.65 per square foot per month in the first quarter of 2013, matching the rate posted in the first quarter of the prior year, but down from the previous quarter's rate by a cent. The drop in the average asking lease rate may be due to better quality product getting leased, leaving less desirable property on the market to lower the average asking rate.
- Absorption** - The San Diego industrial market posted 32,216 square feet of positive net absorption in first

quarter, a slow start to the year following the very strong positive net absorption of last year. 2012 posted the greatest annual positive net absorption since 2007.

- Transaction Activity** - The total square feet leased and sold in the first quarter was 2.65 million square feet, almost same as the 2.69 million that was posted in prior quarter and much more than the 1.56 million square feet of the first quarter last year. Vista played host to a number recent large transactions. Details of the largest transactions can be found on the back page of this report.
- Employment** - The unemployment rate in the San Diego County was 8.0% in February 2013, down from a revised 8.6% in January 2013 and below the year-ago estimate of 9.4%. This compares with an unadjusted unemployment rate of 9.7% for California and 8.1% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 31,400 payroll jobs from February 2012 to February 2013 — including 10,900 in professional and business services and 6,000 from leisure and hospitality. None of the local employment sectors reported any net year-over-year job losses.
- Overall** - We are continuing to see a decrease in the amount of vacancy. We also are seeing a continued trend of positive net absorption. With little product under construction to apply upward pressure on vacancy, the market should continue to stabilize. We expect to see an increase in investment activity in the coming quarters as lenders continue to dispose of distressed assets. We should also see an increase in leasing activity as many short-term deals come up for renewal and as job creation occurs. As unemployment rates drop and consumer confidence stabilizes, the industrial market will continue to recover.

### INDUSTRIAL MARKET OVERVIEW

	1Q13	4Q12	1Q12	% of Change vs. 1Q12
Total Vacancy Rate	7.12%	7.14%	7.91%	(9.99%)
Availability Rate	10.34%	11.05%	11.31%	(8.58%)
Average Asking Lease Rate	\$0.65	\$0.66	\$0.65	0.00%
Sale & Lease Transactions	2,651,766	2,693,643	1,566,403	69.29%
Gross Absorption	2,068,225	2,682,669	1,799,789	14.91%
Net Absorption	32,216	900,965	135,790	N/A



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 1Q2013	Square Feet Available	Availability Rate 1Q2013	Average Asking Lease Rate	Net Absorption 1Q2013	Net Absorption 2013	Gross Absorption 1Q2013	Gross Absorption 2013
<b>Central</b>													
Central City	183	3,103,299	0	0	162,750	5.24%	246,848	7.95%	\$0.86	(116,008)	(116,008)	6,642	6,642
East City	65	1,365,053	0	0	13,975	1.02%	13,975	1.02%	\$0.00	0	0	0	0
Southeast City	333	4,257,903	0	0	205,016	4.81%	237,762	5.58%	\$0.57	39,992	39,992	60,558	60,558
<b>Central Total</b>	<b>581</b>	<b>8,726,255</b>	<b>0</b>	<b>0</b>	<b>381,741</b>	<b>4.37%</b>	<b>498,585</b>	<b>5.71%</b>	<b>\$0.77</b>	<b>(76,016)</b>	<b>(76,016)</b>	<b>67,200</b>	<b>67,200</b>
<b>Central Suburban</b>													
Kearny Mesa	459	11,021,071	0	0	382,610	3.47%	540,531	4.90%	\$0.88	(27,374)	(27,374)	137,908	137,908
Mission Gorge	130	2,260,655	0	0	201,156	8.90%	299,972	13.27%	\$0.81	16,357	16,357	28,328	28,328
Rose Canyon/Morena	140	3,386,300	0	0	187,241	5.53%	233,750	6.90%	\$0.74	(85,100)	(85,100)	5,500	5,500
Sports Arena/Airport	166	2,773,327	0	0	79,534	2.87%	130,578	4.71%	\$0.75	(1,725)	(1,725)	28,110	28,110
<b>Central Suburban Total</b>	<b>895</b>	<b>19,441,353</b>	<b>0</b>	<b>0</b>	<b>850,541</b>	<b>4.37%</b>	<b>1,204,831</b>	<b>6.20%</b>	<b>\$0.81</b>	<b>(97,842)</b>	<b>(97,842)</b>	<b>199,846</b>	<b>199,846</b>
<b>East County</b>													
El Cajon	503	10,455,607	0	450,000	536,921	5.14%	789,490	7.55%	\$0.61	29,684	29,684	130,590	130,590
La Mesa/Spring Valley	342	3,525,269	0	0	163,215	4.63%	202,434	5.74%	\$0.54	11,875	11,875	19,048	19,048
Santee/Lakeside	294	3,840,600	0	353,158	102,697	2.67%	151,251	3.94%	\$0.60	(14,570)	(14,570)	39,370	39,370
<b>East County Total</b>	<b>1,139</b>	<b>17,821,476</b>	<b>0</b>	<b>803,158</b>	<b>802,833</b>	<b>4.50%</b>	<b>1,143,175</b>	<b>6.41%</b>	<b>\$0.60</b>	<b>26,989</b>	<b>26,989</b>	<b>189,008</b>	<b>189,008</b>
<b>Highway 78 Corridor</b>													
Oceanside	423	8,750,189	0	236,582	1,191,417	13.62%	1,347,966	15.40%	\$0.63	(22,794)	(22,794)	68,681	68,681
San Marcos	546	9,291,401	0	53,000	826,596	8.90%	1,028,466	11.07%	\$0.75	32,211	32,211	115,230	115,230
Vista	519	12,925,194	0	623,442	778,696	6.02%	1,140,602	8.82%	\$0.73	(73,193)	(73,193)	100,281	100,281
<b>Highway 78 Corridor Total</b>	<b>1,488</b>	<b>30,966,784</b>	<b>0</b>	<b>913,024</b>	<b>2,796,709</b>	<b>9.03%</b>	<b>3,517,034</b>	<b>11.36%</b>	<b>\$0.68</b>	<b>(63,776)</b>	<b>(63,776)</b>	<b>284,192</b>	<b>284,192</b>
<b>I-15 Corridor</b>													
Escondido	666	8,039,862	0	0	371,864	4.63%	631,705	7.86%	\$0.74	(38,326)	(38,326)	57,551	57,551
Poway	186	7,565,551	0	653,700	327,393	4.33%	588,759	7.78%	\$0.79	85,961	85,961	139,630	139,630
Rancho Bernardo	51	3,341,779	0	0	108,808	3.26%	174,909	5.23%	\$0.72	93,397	93,397	172,151	172,151
Scripps Ranch	30	790,038	0	0	9,346	1.18%	63,547	8.04%	\$0.85	27,352	27,352	27,352	27,352
<b>I-15 Corridor Total</b>	<b>933</b>	<b>19,737,230</b>	<b>0</b>	<b>653,700</b>	<b>817,411</b>	<b>4.14%</b>	<b>1,458,920</b>	<b>7.39%</b>	<b>\$0.77</b>	<b>168,384</b>	<b>168,384</b>	<b>396,684</b>	<b>396,684</b>
<b>North City</b>													
Miramar	617	14,368,894	0	0	1,103,407	7.68%	1,474,505	10.26%	\$0.72	114,719	114,719	395,556	395,556
Sorrento Mesa	79	3,596,980	0	74,000	292,678	8.14%	402,490	11.19%	\$0.91	(52,921)	(52,921)	10,572	10,572
Sorrento Valley	53	1,151,932	0	100,000	13,559	1.18%	23,826	2.07%	\$1.04	2,352	2,352	5,952	5,952
Torrey Pines/UTC	5	140,879	0	0	0	0.00%	0	0.00%	\$0.00	0	0	0	0
<b>North City Total</b>	<b>754</b>	<b>19,258,685</b>	<b>0</b>	<b>174,000</b>	<b>1,409,644</b>	<b>7.32%</b>	<b>1,900,821</b>	<b>9.87%</b>	<b>\$0.77</b>	<b>64,150</b>	<b>64,150</b>	<b>412,080</b>	<b>412,080</b>
<b>North County</b>													
Carlsbad	256	8,641,511	0	153,632	862,731	9.98%	1,176,603	13.62%	\$0.75	6,999	6,999	104,932	104,932
North Beach Cities	65	930,284	0	0	0	0.00%	0	0.00%	\$0.00	1,580	1,580	1,580	1,580
<b>North County Total</b>	<b>321</b>	<b>9,571,795</b>	<b>0</b>	<b>153,632</b>	<b>862,731</b>	<b>9.01%</b>	<b>1,176,603</b>	<b>12.29%</b>	<b>\$0.75</b>	<b>8,579</b>	<b>8,579</b>	<b>106,512</b>	<b>106,512</b>
<b>Outlying Areas</b>													
Outlying SD County North	124	1,453,200	0	0	37,910	2.61%	45,269	3.12%	\$0.86	(5,093)	(5,093)	10,985	10,985
Outlying SD County South	81	847,874	0	0	49,072	5.79%	89,033	10.50%	\$0.00	19,469	19,469	20,889	20,889
<b>Outlying Areas Total</b>	<b>205</b>	<b>2,301,074</b>	<b>0</b>	<b>0</b>	<b>86,982</b>	<b>3.78%</b>	<b>134,302</b>	<b>5.84%</b>	<b>\$0.86</b>	<b>14,376</b>	<b>14,376</b>	<b>31,874</b>	<b>31,874</b>
<b>South Bay</b>													
Chula Vista	378	10,269,185	0	0	617,473	6.01%	977,842	9.52%	\$0.53	4,210	4,210	94,974	94,974
National City	258	4,234,564	0	0	205,025	4.84%	259,994	6.14%	\$0.67	46,650	46,650	75,619	75,619
Otay Mesa	339	15,561,841	0	790,683	2,403,722	15.45%	3,889,158	24.99%	\$0.46	(34,420)	(34,420)	203,411	203,411
San Ysidro/Imperial Beach	71	1,769,374	0	24,121	130,518	7.38%	339,689	19.20%	\$0.53	(29,068)	(29,068)	6,825	6,825
<b>South Bay Total</b>	<b>1,046</b>	<b>31,834,964</b>	<b>0</b>	<b>814,804</b>	<b>3,356,738</b>	<b>10.54%</b>	<b>5,466,683</b>	<b>17.17%</b>	<b>\$0.48</b>	<b>(12,628)</b>	<b>(12,628)</b>	<b>380,829</b>	<b>380,829</b>
<b>San Diego County Total</b>	<b>7,362</b>	<b>159,659,616</b>	<b>0</b>	<b>3,512,318</b>	<b>11,365,330</b>	<b>7.12%</b>	<b>16,500,954</b>	<b>10.34%</b>	<b>\$0.65</b>	<b>32,216</b>	<b>32,216</b>	<b>2,068,225</b>	<b>2,068,225</b>
≤ 9,999	3,303	16,450,046	0	8,000	866,176	5.27%	1,257,491	7.64%	\$1.11	18,834	18,834	229,306	229,306
10,000–24,999	2,427	38,383,463	0	179,759	2,463,888	6.42%	3,471,186	9.04%	\$0.72	21,401	21,401	690,718	690,718
25,000–49,999	936	32,580,332	0	274,425	2,124,434	6.52%	3,329,721	10.22%	\$0.65	(17,104)	(17,104)	402,123	402,123
50,000–99,999	455	31,901,552	0	806,765	2,288,545	7.17%	3,026,469	9.49%	\$0.64	(58,103)	(58,103)	281,420	281,420
100,000–149,999	144	17,023,783	0	826,000	1,654,441	9.72%	2,174,653	12.77%	\$0.70	112,321	112,321	354,791	354,791
150,000+	97	23,320,440	0	1,417,369	1,967,846	8.44%	3,241,434	13.90%	\$0.56	(45,133)	(45,133)	109,867	109,867
<b>San Diego County Total</b>	<b>7,362</b>	<b>159,659,616</b>	<b>0</b>	<b>3,512,318</b>	<b>11,365,330</b>	<b>7.12%</b>	<b>16,500,954</b>	<b>10.34%</b>	<b>\$0.65</b>	<b>32,216</b>	<b>32,216</b>	<b>2,068,225</b>	<b>2,068,225</b>

Lease rates are on a triple-net basis.

RECENT TRANSACTIONS

Sales Transactions

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
2611 Business Park Dr.	Vista	128,531	\$78.93	SR Commercial	Dimension One Spas
7770 Miramar Rd.	Miramar	115,540	\$54.09	Ashley Furniture	Toppan West
1390 Engineer St.	Vista	41,944	\$110.27	Childs Family Investment Partnership	CDC Small Business Finance
5931 Darwin Ct.	Carlsbad	31,200	\$131.24	Oreo, LLC	Childs Family Investment Partnership
8709 Kerns St.	Otay Mesa	59,760	\$67.00	Johnson Storage & Moving Company	Mercantile Real Estate Advisors

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1335 Park Center Dr.	Vista	118,597	Feb-13	Dr. Bronner's Soaps	RIF II-Kaiser, LLC
5260 Anna Ave.	Morena	72,220	Feb-13	Square Peg Packaging & Printing	(Sublease)
Owens Minor	Otay Mesa	56,140	Feb-13	Owens Minor	Sudberry Properties, Inc.
1390 Engineer St.	Vista	41,944	Feb-13	E-World Recycling	Childs Family Investment Partnership
4000 Ruffin Rd.	Kearny Mesa	39,428	Mar-13	Bimbo Bakeries	IDS

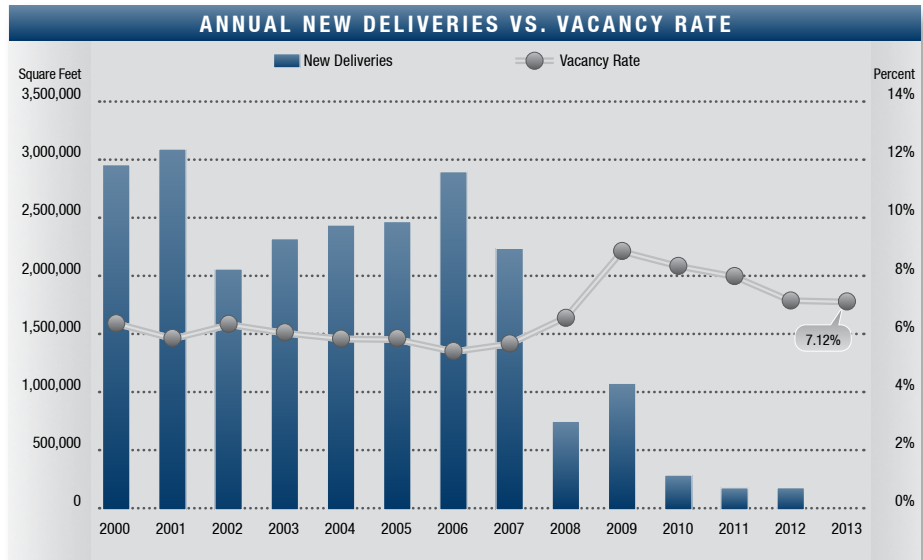
Product Type

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